

VZCZCXRO8801
RR RUEHDBU RUEHSL
DE RUEHKV #1511/01 2471059
ZNY CCCCC ZZH
R 041059Z SEP 09
FM AMEMBASSY KYIV
TO RUEHC/SECSTATE WASHDC 8355
INFO RUCNCIS/CIS COLLECTIVE
RUEHZG/NATO EU COLLECTIVE
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 KYIV 001511

SENSITIVE
SIPDIS

DEPT FOR EUR, EUR/UMB, EEB/OMA

E.O. 12958: DECL: 09/03/2019
TAGS: [EFIN](#) [EREL](#) [ETRD](#) [PGOV](#) [PREL](#) [UP](#) [XH](#)
SUBJECT: WORLD BANK ON IFI ENGAGEMENT IN UKRAINE

Classified By: Economic Counselor Edward Kaska for Reasons 1.4 (b) and (d)

¶1. (C) Summary. The World Bank's Kyiv-based country director urged the international community to engage Ukraine during its pre-presidential election period, suggesting that a high-level E.U. and U.S. delegation could push authorities to abide by their commitments. He said that the opposition Party of Regions had been angered by what it perceived as the IMF's favoritism toward Prime Minister Tymoshenko, particularly the Fund's apparent willingness to relax expectations of GOU adherence to conditionalities before January 2010. The IMF had been fortunate with the high rate of rollovers for short-term corporate loans, the World Bank said, which had allowed the Fund to alter its strategy and disburse monies for budget assistance. Rollovers would need to continue into 2010, or else the Fund will be forced to drastically expand its program. Concerned about the 2010 budget, the World Bank hopes to prevent a spendthrift GOU from developing what it called an "illusory" fiscal target. End summary.

Engagement on Reform Needed

¶2. (C) Martin Raiser, the World Bank country director for Ukraine, Belarus, and Moldova, worried openly about a political environment in Kyiv that was "highly unfavorable" for IFI-supported reforms, but did not anticipate that the post-election period would provide any improvement. In a private meeting with Econoffs on August 27, Raiser urged joint action among bilateral diplomatic missions, saying "we need to engage more seriously." Raiser recommended a senior-level E.U. and U.S. official visit to "up the ante," though he expressed concern that the Germans would continue to view Ukraine through what he called a "pro-Russian" lens, especially on energy issues. Raiser pointed to Russian President Medvedev's "stage-managed" public criticism of Ukrainian President Yushchenko during a press conference in Germany with German Chancellor Merkel. In Raiser's view, Merkel simply stood by, looking like "Russia's best friend."

¶3. (C) Raiser noted that World Bank President Zoellick has been following the "Ukraine dynamic" closely, and was reportedly wary of offering more financial carrots before Ukraine adheres to its promises. Raiser similarly noted that he could not justify spending the World Bank's limited global reserve funds for a country that would not carry out its international commitments. He said that former Minister of Finance and Party of Regions MP Mykola Azarov had been angered by what he termed "the IMF's support of Tymoshenko's election campaign." Azarov reportedly told Raiser that the IFIs "should not give money on promises." Raiser commented that he had kept up a "balancing act" among the competing

interests of Ukraine's political forces, suggesting that the IMF had not done the same. "I understand the IMF's constraints, but at some point you have to get real," he said, referring to the need to also work with President Yushchenko and the Party of Regions. Raiser told us that he had sent a letter expressing his concerns to IMF envoy Ceyla Pazarbasioglu but had not yet received a response.

Rollovers Saving IMF Program

14. (C) The IMF's program in Ukraine (and Ukraine, itself) would have been in a worse position, suggested Raiser, had it not been for the "good fortune" of private sector firms successfully rolling over corporate debt. High roll over rates had allowed the IMF to allocate loan disbursements to Ukraine's 2009 budget, where a deficit of at least 6 percent of GDP remains, rather than to NBU reserves to cover external commitments. Raiser said that the corporate rollovers needed to continue into 2010, or the Fund would need to expand its program funds to provide the balance-of-payments support that was initially envisioned in the November 2008 Stand-By Arrangement. According to the NBU, non-bank related corporate rollovers had been completed at a rate of roughly 99 percent thus far in 2009, a figure that had "surprised" even Raiser.

2010 Budget

15. (C) The government needed to clarify that it would let the Ministry of Finance formulate a draft budget without

KYIV 00001511 002 OF 002

political interference from the Cabinet and Rada, said Raiser. He expressed concern that the Ministry would instead be forced to propose something "illusory" before the presidential election. Complimenting the Ministry of Finance's budget team for their technical expertise, Raiser said the World Bank would be closely involved in drafting the 2010 budget to give the Ministry political cover so that they will "not be accused of unprofessional" actions.

Comment

16. (C) Raiser's criticisms are the strongest we have heard from the World Bank regarding the IMF's need to get tougher with Ukraine. The Bank's country director appeared concerned that the Fund's flexibility could undermine what the World Bank views as its own even-handed approach to pre-election politics. While tacitly seeking U.S. support for a firmer line, Raiser seemed to acknowledge that the IFIs needed to hear from capitals that they would support a tougher line and that, on their own, they may be quickly losing leverage with the GOU.

PETTIT